

Basic Tax Code Overview

This document provides a basic overview of the U.S. federal tax code for individuals, with simplified explanations of core concepts.

1. **Taxable Income**

- Taxable income is the portion of your income subject to federal income tax. It starts with your total income (wages, interest, dividends, business earnings, etc.) and subtracts deductions and exemptions.

2. **Filing Status**

- Your filing status determines your tax brackets and standard deduction.

Common statuses include:

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er)

3. **Standard Deduction vs. Itemized Deductions**

- Standard deduction: A fixed dollar amount that reduces your taxable income.

- Itemized deductions: Specific expenses (e.g., mortgage interest, charitable donations, medical expenses above a threshold) you can deduct instead of the standard deduction if they are larger.

4. **Tax Brackets and Rates**

- The U.S. has a progressive tax system, meaning different portions of your income are taxed at different rates. Brackets are adjusted annually for inflation.

- Example (2024 Single filer):

- 10% on income up to \$11,600
- 12% on income over \$11,600 to \$47,150
- 22% on income over \$47,150 to \$100,525
- Higher brackets apply to higher income levels.

5. **Tax Credits**

- Credits reduce your tax liability dollar-for-dollar.

Examples:

- Child Tax Credit
- Earned Income Tax Credit
- Education Credits (e.g., American Opportunity Credit)

6. ****Self-Employment Taxes****

- Self-employed individuals must pay both the employer and employee portions of Social Security and Medicare taxes, commonly referred to as "self-employment tax."

7. ****Capital Gains and Dividends****

- Long-term capital gains (assets held over 1 year) are taxed at lower rates (0%, 15%, or 20%).
- Short-term gains (assets held 1 year or less) are taxed as ordinary income.

8. ****Withholding and Estimated Taxes****

- Employers withhold taxes from paychecks based on your W-4 form.
- Self-employed or other taxpayers without sufficient withholding may need to make quarterly estimated tax payments.

9. ****Common Forms****

- Form 1040: Main individual income tax return.
- Schedule A: Itemized deductions.
- Schedule C: Business income and expenses.
- Schedule D: Capital gains and losses.

10. ****State Taxes****

- Many states impose their own income tax, with different rules, rates, and deductions.
- Some states have flat rates; others have progressive systems.

****Disclaimer:**** This is a simplified overview. Tax laws change frequently, and individual circumstances vary. Consult the IRS or a tax professional for personal guidance.